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SUBJECT: FRANCE: CIVIL NUCLEAR EXPORTS BOOM

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Summary

¶1. (SBU) French President Sarkozy has announced contract signings or preliminary discussions for the eventual export of French nuclear technology during several recent trips abroad. Both France's nuclear powerhouse Areva (reftel) and French government officials emphasize that the export boom is focused on existing nuclear countries, and that actual sales to new customers in the Middle-East and Asia will not occur for many years, once safety and security prerequisites are firmly in place. Areva plans to use partnerships to implement many of these deals, a strategy that is likely to be affected by ongoing discussions within the GOF about how to recapitalize the firm.

AREVA

¶2. (U) In 2001, the GOF regrouped the French nuclear industry into industrial holding company, Areva, approximately 93 percent of which is owned by the French government. The French Atomic Energy Commission (CEA) holds 79 percent, the French state directly owns 5 percent, and the rest is held by the Caisse des Dépôts (3.5 percent), Electricité de France (EDF), Total, and employees. Roughly 4 percent of Areva is traded as nonvoting investment certificates on the Paris stock market. Areva is number one worldwide in the nuclear power cycle. With a market value of approximately 20 billion euros, Areva recently reported 14.5 percent growth in 2007 profits, and has said it expects that its existing backlog of 39.8 billion euros will increase in 2008 on the back of continued strong growth.

¶3. (U) Areva is the only industrial group in the world involved in the entire production cycle for nuclear energy. Since its creation it has rapidly increased its business in Europe, North America, and Asia. At the end of 2007, 62 percent of the group's revenues came from Europe/CIS; 17 percent from North and South America; 14 percent from Asia/Pacific; and 7 percent from Africa. The roots of its current surge in foreign sales lie in the development of a reactor based on a modernized third generation version of current technology, the European Pressurized Water Reactor (EPR), the first contract for which was awarded to Areva and Siemens in 2003 by Finnish TVO.

Areva's export surge

¶4. (U) Reactor sales or nuclear cooperation agreements designed to prepare the way for eventual sales have been announced recently in China (8 billion euros for the sale of two EPR power plants plus fuel), Libya, Morocco, Algeria, and the United Arab Emirates (two 1600 megawatt reactors). Contacts have been made with India on a potential agreement, and Areva has proposed construction of twelve EPR reactors in South Africa. Areva is also proposing to build EPRs in the UK and in the U.S., the latter via the Unistar nuclear partnership with Constellation Energy.

¶5. (SBU) Though a good deal of attention has focused on recent discussions with Middle-Eastern countries, Jacques Scheer, Diplomatic Advisor to Areva CEO Anne Lauvergeon told us that the company expects 90 percent of its new business in the coming 30 years will be from countries that already have a nuclear industry. Areva was particularly interested in the U.S., China, India, UK, and South Africa. Brazil was restarting a nuclear program, and Areva saw potential in replacing Central Europe's Soviet-era reactors as well. Indonesia and Vietnam could also be potential markets. The demand was so great Areva would have to forego participating in some markets, probably in former Soviet Union (eg. Belarus).

¶6. (SBU) Areva is convinced that the prospects for nuclear energy are so promising it is developing a long-term plan based on all the reactor orders it expects by 2020-2025 and all the "factors" required to manage these, including capital, material, new personnel (particularly engineering talent) and training. Areva has hired over 20,000 people in the past two years (out of a total of 65,000 employees) at a total cost of around 200 million euros per year. Areva plans to hire another 12,000 people in 2008.

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¶7. (SBU) Scheer underlined that with the exception of Libya, which has stockpiles of uranium of interest to Areva, Middle-Eastern countries had "not been a priority" of the company before the recent presidential announcements. Although Abu Dhabi has had a nuclear cooperation agreement with France since 1980, and is reported to want to move ahead quickly with construction, Areva Nuclear Power's CEO Luc Oursel told Emboff bluntly that even this is "not a real project" at present, and that the company had "no interest" in seeing it move ahead quickly. As a company largely owned by the French state, the diplomatic advisor Scheer said that Areva would obviously not go into countries without a green light from the GOF. However he underlined the distinction between the GOF signing a cooperation agreement and Areva completing a contract for a reactor.

Areva would need to negotiate numerous preparatory MOUs before it could contract and deliver reactors. Under the best case scenario Scheer did not foresee reactors in any of these countries being operational before 2020-25.

The road ahead

¶8. (SBU) GOF officials strongly support Areva's efforts to export nuclear technology. They tout the environmental advantages of zero carbon emissions (a politically potent argument in green-conscious France) as well as the possibility it offers to oil producing states to conserve fossil fuels, diversify their energy mix, and desalinate water. They note that sales to developing countries are consistent with the stipulations of the Nuclear Non-Proliferation treaty, and that President Sarkozy has publicly pledged to help countries that comply with the treaty develop a civil nuclear industry.

¶9. (SBU) However, Energy and MFA officials with whom we have discussed these sales also note that discussions with these countries are at a very preliminary stage, and that France is committed to seeing that all appropriate safeguards for safety, security, and non-proliferation are in place before any actual sales take place. None of the recently announced nuclear cooperation

agreements has yet been officially signed, and all are subject to prior EU review by EURATOM. None of the sales of reactors to new nuclear countries involves fuel, and all would in any case be subject to export controls of sensitive technology, which require adequate guarantees about non-proliferation before completion. Areva confirms that it does not envisage selling enrichment or reprocessing technology to countries that do not require it, meaning a minimum fleet of 20-30 reactors, which would exclude countries in the Middle East. (Note: One exception may be China. The Chinese have expressed interest in nuclear waste reprocessing technology. Areva is scheduling very preliminary discussion with Chinese authorities in the coming months.)

¶10. (SBU) French officials freely admit that there will be major challenges ahead in developing a culture of safety and security in aspiring nuclear countries. Nuclear cooperation agreements are only the start. We have been told the GOF recently adopted a classified road-map for implementing such agreements, and is considering establishing a new office to manage international civil nuclear cooperation sometime this spring. France will no doubt be looking to international agencies such as IAEA to help to establish prerequisite safety and security frameworks so that sales can eventually be completed.

Areva's Partnership Strategy

¶11. (SBU) Recent announcements have confirmed Areva's strategy of partnering with a variety of firms in export ventures. Scheer told us that Areva wanted to overcome the perception that EDF was an obligatory partner (though it is still very present in the U.S. and China deals) in order to give customers flexibility and choice. Any exclusive partnership with turbine manufacturer Alstom could mean the loss of its partnership with Siemens, with which it has developed the EPR, and which currently owns 33 percent of Areva's reactor subsidiary. Bad blood between Siemens and Alstom goes back to the development of high speed rail in the 1980s Scheer said, and partnership with both was impossible. Local partners were essential to some deals: China insisted on a partnership stake and technology transfer in contracts for reactors. Areva partnered with Suez rather than EDF in Abu Dhabi, and also brought in Total for its knowledge of the region. Areva was working with a variety of firms in building reactors, including leading French construction firms Vinci and Bouygues.

¶12. (SBU) Areva's reliance on new partners may expose it to

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additional risks of delay or cost overruns. Construction of the first EPR in Finland has proved far more time-consuming and costly than expected. It is now two years behind schedule, and one to one and one half billion euros over budget. Areva and its Finnish partner TVO are trading charges about who is responsible for delays in obtaining regulatory clearances. Other sources have told us that the absence of a partner with experience building nuclear plants (such as EDF) has contributed to these problems.

Areva's Recapitalization

¶13. (U) Areva's booming sales and expansion strategy lend particular significance to discussions about how it should be recapitalized to support future growth. The GOF has been considering selling 35-40 percent of Areva since 2004. President Sarkozy's reported preference for a marriage with another major French industrial company such as Alstom or Bouygues has been fiercely resisted by CEO Anne Lauvergeon, who wishes to maintain Areva's independence and unique focus on an integrated nuclear cycle through a public offering of shares, with only small cross-holdings available to partner companies. Finance Minister Christine Lagarde is reported to have given the results of an HSBC-McKinsey study of Areva privatization to the Elysee early in February, where it is now being considered. A final decision is expected in the coming weeks or months.

Comment

¶14. (SBU) Areva is well-positioned to take advantage of France's sustained commitment to civil nuclear energy of the past 30 years, as developed and developing countries alike look to diversify away from fossil fuels for baseload electricity production. Most of its exports will go to countries that already have developed nuclear systems, and sales to emerging countries will be long in coming, if at all. Often included in high-profile presidential "deliverables" that include contracts for other infrastructure such as desalination plants or high-speed trains, military equipment, or even strategic assets such as the first-ever French military base in the Persian Gulf, Areva's export surge demonstrates France's desire to use its cutting-edge nuclear technology to develop long-term strategic and commercial relationships that will help it to expand its influence abroad and give it a "foot in the door" for future sales as developing countries complete their infrastructure.

¶15. (SBU) Though Areva has moved to a strategy of multiple partnerships designed to maximize its flexibility and ability to meet local commercial constraints, many of these retain an aura of "Made in France." Though the wind is blowing in CEO Lauvergeon's direction at the moment, the Elysee's decision on how the firm will be recapitalized will help determine whether this strategy will prove sustainable over the long-term. In any case the assurance of GOF assistance in creating the institutional infrastructure for civil nuclear energy and in meeting the requirements of international nuclear regulation will remain a critical factor in selling reactors to new nuclear countries.

STAPLETON